

**Fiscal Year 2013-14
Annual Budget Proposal**

Second Reading

April 17, 2013

Fiscal Year 2013-14 Annual Budget Proposal	Pages
A. Total Budget.....	3
B. Total Administrative Budget.....	4
C. Administrative Priorities.....	6
D. Positions (PY) Support.....	9
E. Enterprise Projects Budget.....	10
F. Headquarters Building Budget.....	12
G. Investment Expenditure Projections.....	14
H. Third Party Administrator Fees.....	15
I. Administrative Budget Summary.....	17
J. Administrative Budget by Fund Source.....	18
K. Budget Detail by Branch	19
L. Headquarters Building Budget Detail.....	20

In light of the current economic environment facing the State of California and its communities, the need to efficiently deliver retirement and health security for the public workers of this great State is especially important. The Fiscal Year 2013-14 budget is focused on core business needs critical to CalPERS long-term strategy and on furthering our mission of building retirement and health security for those who serve California.

The Fiscal Year 2013-14 Total Budget of \$1.7 billion represents an overall decrease of 1.7 percent from the Fiscal Year 2012-13 Total Budget and a decrease of 4.6 percent from the Fiscal Year 2012-13 Mid-year Budget. Increases in administrative and third party administrators costs are offset by greater savings in enterprise project, headquarters building and investment expenses mainly due to efficiencies in managing external management consulting costs, reducing the reliance on information technology and investment consultants by transferring workload and knowledge from consultants to State staff.

Fiscal Year 2013-14 Total Budget

<i>(in millions)</i>	FY 2012-13 Annual Budget	FY 2012-13 Mid-year Budget	FY 2013-14 Proposed Budget	% Change from Annual
Administrative	\$ 357.6	\$ 373.9	\$ 406.0	13.5%
Enterprise Project	43.6	84.6	33.3	-23.6%
CalPERS Headquarters Building	41.8	41.8	40.7	-2.7%
Total Administrative Budget	\$ 443.0	\$ 500.3	\$ 480.0	8.4%
Projected Investment Expenses*	\$ 1,194.2	\$ 1,190.0	\$ 1,116.5	-6.5%
– External Management Fees	1,093.0	1,093.0	1,030.0	-5.8%
– Administrative Operating Costs	101.2	97.0	86.5	-14.5%
Third Party Administrators*	\$103.0	\$103.0	\$114.8	11.4%
Total CalPERS Budget and Projections	\$ <u>1,740.2</u>	\$ <u>1,793.3</u>	\$ <u>1,711.2</u>	<u>-1.7%</u>
Total PYs (114)	<u>2,485.0</u>	<u>2,571.0</u>	<u>2,685.0</u>	<u>8.1%</u>

*Information purposes only

The Total CalPERS budget is composed of five main areas: the Administrative, Enterprise Projects and Headquarters Building Account make up the Total Administrative budget which is reviewed and approved by the CalPERS Board of Administration, and the remaining Projected Investment Expenses and Third Party Administrator Fees are, in accordance with past practice, provided for informational purposes only. The One Budget Initiative will consolidate all of these budgets to increase transparency and provide a holistic perspective.

The following pages outline the initiatives proposed in the Fiscal Year 2013-14 Budget to achieve efficiencies, identify and implement cost-saving measures, manage risks, deliver quality customer service and strong affordable health care programs to effectively deliver retirement and health security for the public workers of California.

CalPERS' budget process for 2013-14 included the identification of potential budget reductions based on critical priority considerations, including alignment to business plan objectives, managing top risks, continued pension reform implementation, vacancy management of unfilled positions and delivering on Board approved commitments. This enhanced process ensured each program area focused on true budgetary needs and not upon past patterns of spending. The resulting budget addresses organizational needs and funding to meet strategic objectives while eliminating unnecessary expenses. With consideration given to the current economic environment, this budget process improvement succeeded in identifying over \$33.5 million in cost-savings related to operating expenses, equipment costs and a vacancy savings factor.

As a result, the Fiscal Year 2013-14 CalPERS Total Administrative budget, made up of Administrative, Project and Building costs, totals \$480.0 million, a decrease of \$20.3 million (-4.0 percent) from the approved Fiscal Year 2012-13 mid-year budget and an increase of \$37.0 million (8.4 percent) from the previous Fiscal Year 2012-13 Annual Budget.

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Major highlights of the total Administrative Budget:

- \$33.5 million identified in cost savings for operating, equipment and vacancy factor.
- Cost reductions in project and headquarters budgets for 2013-14.
- \$61.9 million for mandatory cost increases (salary and benefits, annualization of mid-year positions and technical adjustments).
- \$9.5 million for board supported initiatives (Public Agency Audit Reviews, consultant reduction, pension reform and GASB implementation, board election) to ensure compliance and additional cost savings.
- \$5.5 million for health care programs, with Return on Investment (ROI) savings of an estimated \$28 million in 2013-14.
- Additional 114 positions to support organizational priorities.
- Ongoing cost saving efforts to transition from consultants to State staff in the areas of IT, Investments, and Benefit Services.

B. Total Administrative Budget

The following details the breakdown of cost reductions and formal budget requests (FBRs) for the Administrative budget with descriptions on pages six through eight.

Administrative Budget		Dollars	Positions
Fiscal Year 2012-13 Base Budget		\$ 357,590	2,485.0
Adjustments to Base Budget:			
Reduction to Operating Expenses & Equipment	\$ -20,707		
Salary Savings Vacancy Factor	-12,794		
Adjusted Base Budget	\$ -33,501	\$ 324,089	
Additions to Adjusted Base Budget:			
Increase to Salaries & Wages/Benefits (retirement & health)	\$ 21,516		
Project Blanket Funding	12,880		
Information Technology Hardware Refresh (one-time approved at 2012-13 Mid-year)	10,321		
Annualization of the 2012-13 Mid-year positions	10,086		86.0
Technical Adjustments (mandatory pro-rata & GSI)	6,386		
Mandatory Additions to Base Budget	\$ 61,189	\$385,278	
Addition of Strategic Initiatives (FBRs) to Adjusted Base Budget:			
[1] Public Agency Audit Review (PAAR)	871		8.0
[2] ITSB Consultants to State Staff	3,740		47.0
[3] Board Election	1,983		-
[4] Pension Reform and GASB Implementation	455		7.0
[5] Health Care Programs	5,518		12.0
[6] Workload Growth	3,784		27.0
[7] Consultant Conversion	2,189		13.0
[8] Other – Process Efficiency Review and Legal Costs	2,160		-
Addition of Initiatives (FBRs) to Adjusted Base Budget	\$ 20,700	\$405,978	114.0
Fiscal Year 2013-14 Administrative Budget		\$ 405,978	2,685.0

Strategic Initiatives

\$

Positions

[1] Public Agency Audit Review (PAAR)

\$871,000

8.0 PYs

This initiative implements the Board's direction in August 2012 to increase the number of annual public agency audit reviews. These resources will enable the Office of Audit Services to manage the increase in the number of reviews, better address higher-risk areas and proactively review the reporting practices of public agencies to ensure compliance. Additional resources in the Office of Audit Services (five auditors), Legal Office (two attorneys), and Customer Account Services Division (one retirement program specialist) are being requested to support the expansion of this program strategy.

[2] ITSB Consultants to State Staff

\$3,740,000

47.0 PYs

The request of 47 positions for Information Technology Services Branch knowledge transfer is the second part of the 99 positions supported by the Board in August 2012 midyear. With the continued transition of the myCalPERS system to operations, the continued reliance on consultants is being phased out and civil service staff will perform these duties. This initiative is consistent with the State of California's directive to reduce State contract costs, and supports CalPERS Business Plan initiative 8.1 to develop staff competencies and encourage insourcing by transferring workload and knowledge from consultants to State staff.

[3] Board Election

\$1,983,000

-

The California Public Employees Retirement Law, Government Code section 20090, requires CalPERS to hold elections for the CalPERS Board of Administration's six elected board member positions. Each Board election schedule extends across two fiscal years – Fiscal Year 2012-13 and Fiscal Year 2013-14. In Fiscal Year 2013-14, the second half of the Member-At-Large (MAL) Election will be conducted. Estimated costs include printing, imaging, and mail preparation for candidate statements, ballot production, ballot counting, postage, and arbitration fees, etc. There is an estimated 1.3 million members eligible to vote in this election.

[4] Pension Reform and GASB Implementation

\$455,000

7.0 PYs

Pension reform legislation passed in 2012 went into effect on January 1, 2013. The Public Employees' Pension Reform Act of 2013 (PEPRA) and related Public Employees' Retirement Law (PERL) amendments have initiated increased workload to interpret and comply with a multitude of complex changes including reduced benefit formulas. With the passing of the Pension Reform Bill (AB 340) the workload requirements for the Actuarial Office will double over previous years, requiring changes to their Actuarial Valuation System and the addition of three actuarial staff.

As a result of the Governmental Accounting Standards Board (GASB) 67 and 68 reporting requirements for state and public agencies that contract with CalPERS for pension benefits, funding is required to increase the actuarial staff by four positions due to the increased GASB reporting requirements. Provisions for GASB Statement 68 are effective for fiscal years beginning after June 15, 2014, with data from the June 2013 actuarial valuations as the basis for GASB 68 financial reporting.

Strategic Initiatives

\$

Positions

[5] Health Care Programs

\$5,518,000

12.0 PYs

CalPERS have various programs and activities regarding the delivery of health care programs underway throughout the organization to continue efforts to ensure a lifestyle of wellness among our members. To meet the Business Plan Objective 1.4 to stabilize and sustain the Long-Term Care (LTC) program, funding is required to conduct long-term care contract monitoring through a third party administrator, develop new benefit design options, implement and monitor an open enrollment period as well as assess the LTC fund status.

The Health Benefit Purchasing Initiative is embarking on an innovative concept of hybrid funding arrangements for its Health Maintenance Organizations (HMO) health plans and risk adjusting premiums. This requires a transfer of workload from its health plan operations to internal operations, including additional claims processing, claims reserve management, fiscal reconciliation and health plan appeals process. Changing the statewide HMO to hybrid funding arrangements will result in approximately \$28 million in savings for 2014 with additional savings realized through other cost-saving initiatives.

The Health Plan Appeals and Clinical Program is requesting funding for two positions to assist in their goal of reducing health care costs while maintaining quality of care. With the hiring of two medical positions, they will perform the necessary medical determinations and interpretation of medical evidence submitted by physicians to support the determination of an applicant's eligibility for disability benefits and ensure disability retirement benefits are processed in the most accurate, timely and cost effective manner. Additionally, two positions are being recommended for ongoing research and analysis for the health care program and assist in the health benefit procurement efforts to minimize the need to hire external consultants.

[6] Workload and Support Services

\$3,784,000

27.0 PYs

CalPERS core workload must be completed on a timely basis to meet service level goals throughout the organization. Divisions were asked to consider efficiencies and redirecting of vacant positions before requesting new resources.

The Investment Office requires additional administrative positions to support the increase in staff as a result of insourcing their investment functions as part of the Investment Office Roadmap. Core workload increases in various asset classes requires an additional ten positions.

Four positions are being recommended for staff positions that are currently in blanket positions. These four positions will provide front-line customer service and document management support as a result of the myCalPERS implementation.

The remaining twelve positions include support positions for core workload expansion of webinars and computer-based training, financial and GASB reporting, increased collections activity, enhancing compliance capabilities, establishing a policy management unit, system support for benefit services and executive office support.

Strategic Initiatives

\$

Positions

[7] Consultant Conversion

\$2,189,000

13.0 PYs

CalPERS Business Plan initiative 8.1 states CalPERS must develop staff competencies and encourage insourcing by transferring workload from consultants to State staff, resulting in a reduction in consultant expenditures and consultant reliance. Both the Benefit Services Division (1 PY) and the Investment Office (12 PYs) have identified key processes where they are currently reliant on consultant assistance. The insourcing of this workload will assist in reducing costs and is consistent with the IT insourcing strategy to phase out consultants with Staff staff performing those duties.

[8] Other – Process Efficiency Review and Legal Costs

\$2,160,000

-

To maximize the full capabilities of the my|CalPERS technology, one-time funding is needed to support the business plan objective to align core business processes with the my|CalPERS system efficiencies. A comprehensive end-to-end review of existing processes within the Customer Services and Support Branch will identify efficiencies and provide opportunities to streamline processes.

Additional funding is required to continue to protect the financial soundness of the pension and health systems and reflect the added legal counsel review required for health program related work, independent contractor litigation, complex tax issues, pension reform, increased audits of public agencies, bankruptcies of employer agencies and an overall increase in CalPERS-related legal issues.

D. Positions (PY) Support

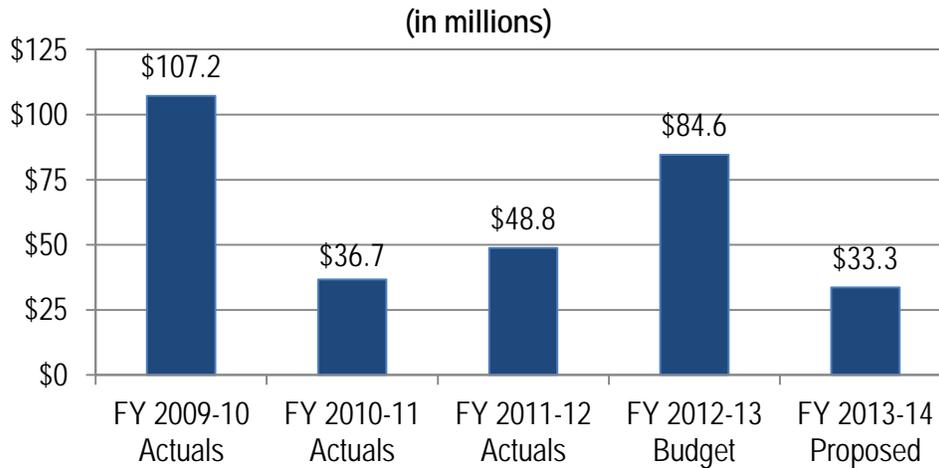
The following details, by branch, the 114 permanent positions being recommended at a cost of \$11.1 million in the Fiscal Year 2013-14 budget. Of the 114 positions, 47 were approved as part of the Mid-year 2012-13 process for ITSB consultant reduction and five audit positions for increased public agency audit reviews. The remaining 62 positions support health care programs, ensure GASB compliance, support implementation of pension reform, management of investment and policy risk and address growing core workload as follows:

Branch	FY 2012-13 Authority ¹	Change in Positions	FY 2013-14 Authority	Percent Change
Actuarial Office	48.0	7.0	55.0	14.6%
7.0 – Actuaries for Pension Reform and GASB compliance				
Benefit Program Policy and Planning	124.0	7.0	131.0	5.6%
4.0 – Health benefits purchasing initiative				
3.0 – Research analysts and medical consultant				
Customer Services and Support	881.5	7.0	888.5	0.8%
1.0 – Public Agency Audit Review				
4.0 – Health benefits purchasing initiative				
2.0 – Consultant conversion				
Office of External Affairs	60.0	3.0	63.0	5.0%
2.0 – Workload support for webinar/social media				
1.0 – Stakeholder relations				
Executive Office	18.0	1.0	19.0	5.6%
1.0 – Workload growth				
Financial Office	197.0	9.0	206.0	4.6%
5.0 – Accounting, Collections, Financial Reporting and Investment Accounting				
2.0 – Enterprise compliance capabilities				
2.0 – Risk policy management				
General Counsel	116.0	7.0	123.0	6.0%
7.0 – Public Agency Audit Review Auditors [5] & Attorneys [2]				
Investment Office	319.0	22.0	341.0	6.9%
12.0 – Consultant conversion to State staff				
9.0 – Support staff/INVO Roadmap				
1.0 – Support staff/Affiliate Investment Program				
Operations and Technology	807.5	51.0	858.5	6.3%
4.0 – Document Center workload growth				
47.0 – ITSB Consultant conversion				
Total	2,571.0	114.0	2,685.0	4.4%

¹ Authorized positions, including the 86 approved positions from the Fiscal Year 2012-13 Mid-Year

As a result of the close examination of existing vacancy rates and recognizing additional opportunities to streamline and redirect staffing efforts, a policy will be developed to address vacancies and readdress blanket positions toward achieving a full staffing complement while reducing blanket positions going forward. Cost savings of \$7.1 million have been reflected in the Second Reading budget to reflect this policy change for the Fiscal Year 2013-14 budget.

Enterprise Projects Budget History



The Fiscal Year 2013-14 Enterprise Project budget includes \$33.3 million for information technology infrastructure to meet the most urgent needs for IT systems upgrade and renewal. This includes the transition of the MyCalPERS system's full maintenance activities in 2014 and the request of \$33.3 million represents the enterprise project budget's lowest cost in the past five years, primarily due to the reduction of costs in the MyCalPERS system project, a decrease of \$51.3 million (-387.2 percent).

MyCalPERS System

\$22.6 M

The last milestone towards system acceptance of the MyCalPERS system is scheduled for Spring 2013 to ensure final deliverables meet all acceptance criteria. The maintenance and operations work, enhancements and knowledge transfer will continue with CalPERS targeting full ownership of all maintenance activities in 2014. A breakdown of the anticipated costs for Fiscal Year 2013-14 include the following

\$22.6M for MyCalPERS includes:

- | | |
|--|-----------------------|
| • Accenture consultants | \$11.6M |
| • Application support / data services and legal expenses | 8.2 |
| • State staff assigned to project | 2.3 |
| • Hardware/software | <u>0.5</u> |
| | <u>\$22.6M</u> |

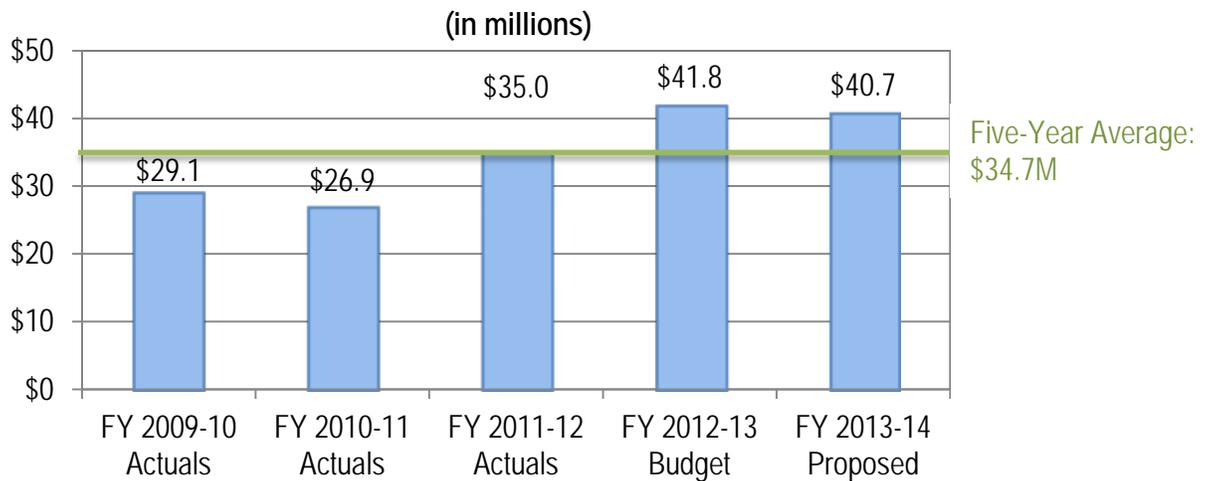
Additional Enterprise IT Projects **\$10.7 M**

A further \$10.7 million is being requested for several IT initiatives to continue to enhance system security, establish a centralized content management system, effectively manage data to support decision-making and improved system functionality to enhance workforce development, information sharing, and collaboration.

- [1] Security Roadmap Phase II** **\$6.0 M**
The Security Roadmap (SRP) Phase II is an ongoing multi-year effort and an important 2012-14 Business Plan commitment to ensure CalPERS technology remains secure against the constantly changing landscape of cyber threats to improve security and reduce CalPERS risk. Phase II continues the efforts around data loss prevention and identify management as well as enhancing network access control appliances and remote access capabilities.
- [2] Business Intelligence** **\$2.5 M**
Business Intelligence (BI) is also part of the 2012-14 Business Plan (Initiative 7.6) and focuses on the ability to better analyze CalPERS data to make informed business decisions. Specific objectives of this project include supporting business intelligence needs for member life cycle interactions, workflow analysis to support process improvement and trend analysis, customer contact analytics for improved insight into common customer inquiries and member characteristic analytics to determine historical patterns to forecast future trends to support better customer service delivery.
- [3] Enterprise Resource Planning** **\$1.5 M**
Enterprise Resource Planning (ERP) is a multi-year project which includes PeopleSoft Data Security Administration, e-Procurement, IT Asset Management, and additional internal and external interfaces. This will enhance PeopleSoft with additional functionality and interfaces to optimize workforce development, information sharing, and collaboration.
- [4] Enterprise Content Management** **\$0.7 M**
Enterprise Content Management (ECM) Phase I project launched February 2013 provided for new SharePoint technology to manage the Intranet website content. Phase II of ECM will continue efforts to improve intranet usability through the centralization of data content, improving data structure as well as incorporating enhancements such as blogs, survey instruments, forms, and process improvements to support business informational needs.

The Headquarters Building proposed budget for Fiscal Year 2013-14 is \$40.7 million. This represents a decrease of \$1.1 million from Fiscal Year 2012-13 or 2.7 percent.

Headquarters Building Budget History



The Headquarters Building Account budget includes operating expenses (i.e., taxes, utilities, waste removal, engineering, electrical, HVAC, plumbing, elevator/escalator, janitorial, landscaping, parking garage, general maintenance, security, etc.) and non-operating expenses (i.e., office plant rental, cable service, off-site expenses, owner and building improvements, facilities support such as furniture, telecommunications and building insurance). A more detailed breakdown is in Item L on page 20.

The Headquarters Building Budget proposes funding of \$11.3 million for several major projects to optimize office space, support functionality of the IT Data Center, upgrade telecom services and meet Leadership in Energy and Environmental Design (LEED) compliance requirements as follows:

Major Projects Underway

- The workspace modifications project (\$5.8 million) is needed to optimize the use of space in the Investment Office and the Information Technology Services Branch to accommodate increased staffing needs. The preparation of the infrastructure includes under floor distribution of electrical, HVAC (heating, ventilation, and air conditioning improvements), along with installation costs, and furniture.
- Expansion of the Information Technology Services Branch Data Center (\$1.2 million) to increase the space for computers to host and secure CalPERS data and applications to support daily business operations, which requires installing additional equipment racks and power and cooling for emergency preparedness.

- Telecom Services upgrade (\$2.7 million) that consists of using VoIP (voice over internet protocols) system technology, moving from analog to digital technology to reduce long-distance and maintenance costs.
- The LEED Certifications (\$1.6 million) is expiring the September of 2014 for Lincoln Plaza North and requires recertification to achieve consistency with the Green Building Action Plan. The Green Building Action Plan is a Governor's Executive Order that mandates the greening of State Buildings to achieve energy savings of 20% by 2015 from a 2003 baseline. While Lincoln Plaza North is currently LEED certified with existing building operations and maintenance, Lincoln Plaza East and West do not meet this standard certification, and therefore funding is required to meet all of the parameters of the Green Building Action Plan.

G. Investment Expenditure Projections

	FY 2011-12 Actuals	FY 2012-13 Projection ¹	FY 2013-14 Projection
Global Equity	\$ 51,388	\$ 111,083	\$ 74,273
Fixed Income	6,118	6,307	7,200
Real Assets	194,551	215,742	194,871
Absolute Return Strategy	62,001	-	68,000
Private Equity	494,167	516,852	494,167
External Mgmt - Base Fees	\$ 808,225	\$ 849,984	\$ 838,511
Global Equity	\$ 48,910	\$ 103,132	\$ 57,941
Fixed Income	5,094	4,300	4,500
Real Assets	88,677	135,622	65,017
Absolute Return Strategy	22,731	-	64,000
External Mgmt - Performance Fees	\$ 165,412	\$ 243,054	\$ 191,458
Total External Mgmt Fees	\$ 973,637	\$ 1,093,038	\$ 1,029,969
Personal Expense	\$ 39,365	\$ 53,087	\$ 57,048 ²
Consultants	37,744	47,427	28,070
Operating Expense	25,738	22,294	18,511
Technology Expense	31,528	28,426	39,895
Administrative Expense	4,642	2,558	2,644 ²
Total Administrative & Operating Expenses	\$ 139,017	\$ 153,792	\$ 146,168
Total Investment Management Costs	\$ 1,112,654	\$ 1,246,830	\$ 1,176,137

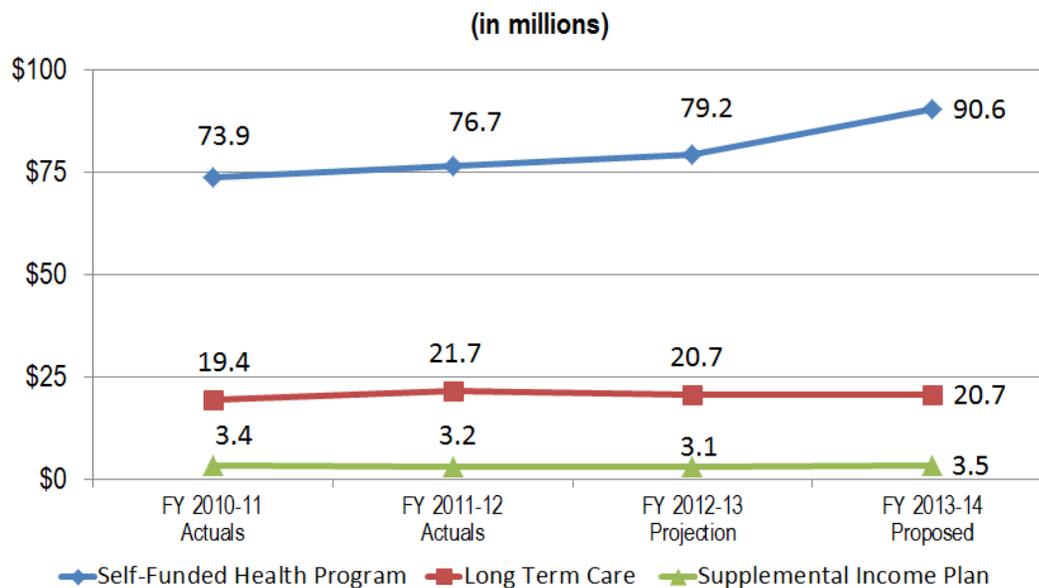
Total investment expenses were reduced by \$70.7 million (-5.7 percent) from the Fiscal Year 2012-13 Annual Budget. External Management Fees decreased by \$63.1 million (-5.8 percent) mainly due to the efficiencies in restructuring portfolios and the decrease in external management consulting costs.

The \$7.6 million (-5.0 percent) reduction in Administrative Operating Costs is a result of significant reductions in consultant expenses and operating expenses (-\$23.0 million) due to effective insourcing strategies. This is offset by increases in technology and personal expenses (+\$15.4 million) as a result of the Investment Office changing their projection methodology to better align with actual historical expenditures.

¹ The Fiscal Year 2012-13 external management fee projection is from the Legislative Analyst's Office report published in January 2012.

² The Personal Expense and the Administrative Expense line items are already reflected in the CalPERS Administrative Budget.

Third Party Administrators provide plan administration, recordkeeping, marketing, and participant communication services for CalPERS' Long-Term Care Program, Self-Funded Health Program and Supplemental Income Plan. Establishing strong partnerships to support delivery of health and pension services continues to support our focus on improving long-term health and pension benefit sustainability for our members¹.



Self-Funded Health Program

The Health Benefits Program provides health coverage to the more than 1.3 million members and their families enrolled in CalPERS health plans which include all active and retired California State employees, as well as active and retired employees of local agencies and school districts. Univita, Anthem Blue Cross and CVS Caremark provide administrative services to support the Self-Funded Health Program. Cost increases of \$11.4 million (14 percent) capture enrollment and administrative fee rate increases due to expected increases in the number of self-directed health plans for the 2014 calendar year.

Long-Term Care Program

The Long-Term Care Program provides comprehensive long-term care protection, including care at home, and in adult day care centers, assisted living facilities and nursing homes. Long-term care provides personal, non-medical assistance in performing ordinary activities of daily living. As a

¹ Univita provides underwriting and issuance, billing/banking, care advisory services, claims administration, reports, data fees, and customer services. Anthem Blue Cross is responsible for the self-funded Preferred Provider Organizations (PPO) and provides access to a network of physicians, hospitals, and other health care professionals as well as providing claims payment services and utilization review for the plans. Effective January 1, 2012, CVS Caremark is the Third Party Administrator for prescription drug benefits under the PPO's through its mail order pharmacy or network of retail pharmacies.

result of efficiencies and effective cost containment measures, proposed fees for Fiscal Year 2013-14 remain unchanged from the Fiscal Year 2012-13 projection at \$20.7 million and are \$1.0 million (-4.5 percent) lower than the Fiscal Year 2011-12 actuals of \$21.7 million.

Supplemental Income Plan

CalPERS provides oversight for various Supplemental Income Plans (SIP) which are deferred compensation and defined contribution plans for employees of participating public agencies, schools, and the State of California. This program provides participants with supplemental income during retirement by leveraging world class investment management to keep costs low and provide Plan participants with unique investment options to provide financial security, value and quality customer service to employers and Plan participants. The ING Group is the third party administrator responsible for providing recordkeeping and administrative services for the SIP.

After several years of decreasing costs to the SIP, the Fiscal Year 2013-14 projections include a \$500,000 increase for the addition of field representatives to further improve and enhance service delivery to plan participants to ensure they have ready access to make informed decisions about the program.

	<u>FY 2011-12 Actuals</u>	<u>FY 2012-13 Projection</u>	<u>FY 2013-14 Projection</u>
Long-Term Care Program	\$ 21,717,858	\$ 20,650,000	\$ 20,650,000
Self-Funded Health Program	76,653,794	79,241,187	90,559,339
Supplemental Income Plan	<u>3,180,935</u>	<u>3,140,351</u>	<u>3,540,776</u>
TOTAL	<u>\$ 101,552,587</u>	<u>\$ 103,031,538</u>	<u>\$ 114,750,115</u>

Third Party Administrator Fee Detail

	<u>FY 2011-12 Actuals</u>	<u>FY 2012-13 Projection</u>	<u>FY 2013-14 Projection</u>
Long-Term Care Program			
Univita	\$ 21,717,858	\$ 20,650,000	\$ 20,650,000
Self-Funded Health Program			
Anthem Blue Cross	70,241,002	71,180,000	77,000,118
Medco	3,031,886	-	-
CVS Caremark	3,380,906	8,061,187	13,559,221
Supplemental Income Plan			
ING	<u>3,180,935</u>	<u>3,140,351</u>	<u>3,540,776</u>
TOTAL	<u>\$ 101,552,587</u>	<u>\$ 103,031,538</u>	<u>\$ 114,750,115</u>

I. Administrative Budget Summary

BUSINESS PLAN OPERATIONS:	FY 2011-12 Actual Expenses	FY 2012-13 Budget	FY 2012-13 Mid-Year Budget	FY 2013-14 Proposed Budget	% Change from Annual
PERSONAL SERVICES					
Salaries & Wages	\$ 151,463,297	\$ 166,485,237	\$ 169,289,168	\$ 197,041,930	18.3%
Temporary Help	12,651,585	5,254,508	5,734,488	15,370,192	292.5%
Overtime	1,340,497	1,499,248	1,499,248	1,953,626	30.3%
Salary Savings	-	-	-	-12,794,021	N/A
Benefits	59,417,466	64,411,634	70,965,654	86,075,295	33.6%
Total Personal Services	\$ 224,872,845	\$ 237,650,626	\$ 247,488,557	\$ 286,647,023	20.6%
OPERATING EXPENSES & EQUIPMENT					
General Expense	\$ 5,384,617	\$ 11,215,799	\$ 11,299,916	\$ 7,699,344	-31.4%
Software	790,530	2,605,981	3,347,981	1,717,394	-34.1%
Printing	1,457,079	4,978,810	5,139,810	1,778,700	-64.3%
Postage	3,503,032	3,471,527	3,508,127	3,438,554	-0.9%
Communications	2,551,766	3,927,240	3,968,240	2,751,382	-29.9%
Data Processing Services	18,659,381	14,127,674	14,127,674	17,263,048	22.2%
Travel In-State	828,248	1,802,062	1,811,962	834,121	-53.7%
Travel Out-of-State	858,788	1,143,800	1,143,800	818,330	-28.5%
Training	753,659	2,590,741	2,631,741	1,459,483	-43.7%
Medical Exam/Disability Travel	1,251,016	2,207,496	2,207,496	1,370,000	-37.9%
Facilities Operations	3,566,577	3,888,466	3,888,466	3,911,466	0.6%
Central Administrative Services	16,324,421	18,026,634	18,026,634	19,078,141	5.8%
Attorney General Services	165,178	310,093	310,093	189,000	-39.1%
Hornet Student Assistants	3,172,368	2,100,792	2,100,792	6,000	-99.7%
Consultant & Professional Services					
Interdepartmental	6,143,288	7,251,870	7,251,870	7,012,586	-3.3%
External	20,314,162	28,067,182	28,201,182	27,319,693	-2.7%
Outside Counsel	4,812,701	2,900,000	2,900,000	4,000,000	37.9%
Investment Consultants	-	352,170	352,170	-	-100.0%
Audit Services	734,986	717,656	717,656	704,656	-1.8%
Federal Lobbyist	766,280	790,094	790,094	800,000	1.3%
Admin Hearings	462,476	682,820	682,820	500,000	-26.8%
Consolidated Data Centers	330,000	1,141,992	1,141,992	777,000	-32.0%
Equipment (includes EDP)	5,635,450	5,638,474	10,852,926	15,902,080	182.0%
Total Operating Exp. & Equip.	\$ 98,466,001	\$ 119,939,374	\$ 126,403,443	\$ 119,330,978	8.4%
GRAND TOTALS	\$ 323,338,846	\$ 357,590,000	\$ 373,892,000	\$ 405,978,000	13.5%

J. Administrative Budget by Fund Source

	FY 2011-12 Actual Expenses	FY 2012-13 Annual Budget	FY 2012-13 Mid-Year Budget	FY 2013-14 Proposed Budget	Percentage Increase from 2012-13
Administrative Budget Fund Authority					
Public Employees' Retirement Fund (PERF)	\$ 271,212,451	\$ 302,925,000	\$ 316,060,000	\$ 341,533,000	12.7%
Public Employees' Contingency Reserve Fund (CRF)	25,883,308	26,445,000	26,251,000	26,808,000	1.4%
Public Employees' Health Care Fund (HCF)	16,542,217	17,642,000	19,859,000	22,313,000	26.5%
Deferred Compensation Fund (DCF)	1,530,623	1,692,000	1,766,000	1,798,000	6.3%
Long-Term Care Fund (LTCF)	1,606,849	1,756,000	2,028,000	5,625,000	220%
Judges' Retirement Fund (JRF)	1,079,852	1,115,000	1,348,000	1,440,000	29.1%
Judges' Retirement Fund II (JRF II)	677,984	703,000	861,000	951,000	35.3%
Legislators' Retirement Fund (LRF)	318,200	331,000	397,000	432,000	30.5%
Replacement Benefit Custodial Fund (RBF)	7,998	9,000	9,000	9,000	0.0%
Reimbursements	2,716,011	2,809,000	2,937,000	2,742,000	-2.4%
Annuitants' Health Care Coverage Fund (AHCCF)	1,763,353	2,163,000	2,376,000	2,327,000	7.6%
Total CalPERS	\$ 323,338,846	\$357,590,000	\$ 373,892,000	\$ 405,978,000	13.5%*

*The 13.5 percent increase is from the FY 2012-13 Annual Budget. There is a 10.5 percent increase from the FY 2012-13 Mid-Year Budget.

Total Budget Overview		Total
Administrative Budget		\$ 405,978,000
Actuarial Office	\$ 7,102,000	
Benefit Programs Policy and Planning	23,407,000	
Customer Services and Support	101,280,000	
Executive Office	5,913,000	
Financial Office	25,100,000	
General Counsel	18,967,000	
Investment Office	57,984,000	
Office of External Affairs	12,587,000	
Operations and Technology	134,560,000	
Other ¹	19,078,000	
Enterprise Projects Budget		33,288,000
CalPERS Headquarters Building Account		40,676,000
Projected Investment Expenses²		1,116,500,000
Projected Third Party Administrator Expenses²		114,750,000
Total Budget		\$ 1,718,292,000

¹ Central Administrative Series (Pro-Rata)

² Information Item Only

L. Headquarters Building Budget Detail

	FY 2011-12 Actuals	FY 2012-13 Total	Headquarters & Facilities Support Budget	1800 7th St	1800 3rd St	FY 2013-14 Total
Income:						
Rent (Non-PERF Programs)	\$ 4,363,000	\$ 4,655,000	\$ 1,641,000	\$ -	\$ 516,405	\$ 2,157,405
Owner Contributions	29,019,000	35,371,000	32,771,000	67,000	4,217,595	37,055,595
Other Income	1,622,000	1,785,000	1,308,000	-	155,000	1,463,000
Total Income	\$ 35,004,000	\$ 41,811,000	\$ 35,720,000	\$ 67,000	\$ 4,889,000	\$ 40,676,000
Expenses:						
Operating:						
Utilities	\$ 2,830,000	\$ 2,970,000	\$ 2,687,000	\$ 12,000	\$ 237,000	\$ 2,936,000
Engineering	2,351,000	2,674,000	2,602,000	-	170,000	2,772,000
Janitorial	2,806,000	2,948,000	2,855,000	3,000	204,000	3,062,000
Security	2,087,000	2,201,000	2,268,000	4,000	30,000	2,302,000
Operating Other	7,928,000	12,031,000	11,656,000	48,000	4,248,000	15,952,000
Total Operating	\$ 18,002,000	\$ 22,824,000	\$ 22,068,000	\$ 67,000	\$ 4,889,000	\$ 27,024,000
Non-Operating:						
Owner Improvements	3,655,000	3,712,000	3,211,000	-	-	3,211,000
Building Improvements	8,120,000	7,628,000	3,491,000	-	-	3,491,000
Facilities Support Budget						
Telecommunications	2,922,000	2,708,000	2,708,000	-	-	2,708,000
Furniture Assets	1,782,000	4,102,000	3,356,000	-	-	3,356,000
Building Insurance	523,000	837,000	886,000	-	-	886,000
Total Non-Operating	\$ 17,002,000	\$ 18,987,000	\$ 13,652,000	\$ -	\$ -	\$ 13,652,000
Total Expenses	\$ 35,004,000	\$ 41,811,000	\$ 35,720,000	\$ 67,000	\$ 4,889,000	\$ 40,676,000

Operating Expenses include ongoing monthly expenses for such things as utilities, waste removal, property taxes, engineer salaries, janitorial services, security services, cafeteria, landscaping, etc.

Non-Operating Owner Improvements include CalPERS operational enhancements and support for the movement of divisions, units, and/or staff within CalPERS.

Non-Operating Building Improvements are improvements made to the building structure or common areas.

Facilities Support Budget includes new workstations, ongoing maintenance and support of voice mail, video conferencing, and telecommunication system upgrades. This section also includes building insurance expenses.